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NOTES AND MEMORANDA.

A PROPOSAL FOR SECURING THE MAINTENANCE OF BANK RESERVE.

Whatever the amount of proportional "legal reserve" required for the National Banks of any class, under existing law or any future law; and whatever the general permission of law as to what may be "counted" as reserve (which properly should be "cash on hand" alone); and whatever the basis used in computing the particular reserve of any bank,—in any case and always there will be the problem of securing proper machinery for the maintenance of the reserve. There will be the difficulty of providing adequate means for the enforcement of the law. It is desirable in our political circumstances, furthermore, that this end be attained without lodging excessive discretionary power in the hands of officers of government.

The present law, respecting the matter under discussion, is unsound in principle and unworkable in practise. The fixed ratio of reserve should be repealed, except as a norm or general guide for administration. There should be a flexible limit in place of a dead-line; that is, the law should be enforced by means of a mild, automatic penalty. A standing law should be enacted, that whenever a bank "goes below the reserve," which it shall have a perfect right to do at any time and to any extent, it shall pay a tax of 6 per cent. (or some fixed sufficiently deterrent rate of tax) upon that amount of its total demand liabilities, which is accountable for the deficit in proportional legal reserve. This is an adaptation of the principle of the flexible limit of the tax-free normal and taxable abnormal "uncovered" note issue of the Reichsbank of Germany. If the bank "stays

below the reserve" for more than ten days (or some proper fixed number of days), the tax or fine shall be doubled: if for more than twenty days, it shall be trebled, and so on. This tax is to be a real tax kept by the government, and not to be subsequently refunded in whole or in part.

This proposed change from the existing system is an adaptation to our conditions of the theory and practise of the raising of the rate of discount by the Bank of England. That is the only way to handle a crisis properly. Since our banks might shift the tax or fine, together with perhaps a surcharge, upon their customers, provision should be made for their paying ultimately to the government any profits they may make while in the condition of "staying below the reserve." The tax proper should be collected promptly; and with this end in view, and as a necessary feature for making the scheme generally workable, the periods for which the progressive tax is computed should be one week, two weeks, etc. (or ten days, twenty days, etc.), corresponding to the times when the reports of the banks are due to be rendered to the supervising agency. If the disgorging of profits feature of the scheme just suggested is too drastic or too difficult of enforcement, it will be sufficient for the attainment of the chief end in view to compute the tax at any time (whether for the initial or the continuing offence) upon a sliding scale, multiplying the amount of the excess of credit expansion by one-fourth (or some larger fraction) of the rate of discount, whatever that may be. The standing tax imposed for purposes of revenue upon the circulation of the Bank of France is calculated upon the productive issue multiplied by one-eighth of the current rate of discount. There should be properly, of course, in no country a tax on the mechanism of exchange, simply for revenue.

If it is objected to the general project of law outlined above that our banks cannot be trusted, tho subject to fine, not to "run things into the ground," if they are left free to expand their credit to any extent they see fit, then I fall back upon the recommendation of getting at

once proper "general safeguards" and a greater concentration of banking in able and honest hands, so that we shall have bankers that can be trusted to do what bankers ought to do. To have a lot of incompetents in charge of our banks,—to take that for granted,—and then to attempt to tie them up, so that they cannot do much harm (which hinders them from doing good), is no "way out" or permanent cure of our troubles.

Our existing law of reserve, I repeat, is absolutely unworkable. In times of crisis, even in the times of lesser crisis, it is impossible to enforce a law of fixed dead-line of reserve. On such occasions, even when so handled that they pass off as disturbances of the lesser sort, banks are compelled, in order to relieve the strain, to keep on lending; and thus they increase their demand liabilities, and continue to fall more and more below a fixed per cent. of legal proportional reserve. This last will happen, even if there is no incipient panic causing a draining of lawful money from the absolute reserve; that is, even if there is no run proper. At any time of crisis, for the Comptroller of the Currency to exercise his excessively drastic powers under existing law would be to turn a small "squeeze" into a disaster. It is out of the question to enforce the law at such times: he must use "discretion," as it is mildly and euphemistically expressed. "So much the more then," one may naturally say, "should he hold the banks up sharply to maintaining their full quota of legal reserve in ordinary, normal times." But this cannot be done. Always it will be a matter of debate whether the times are normal enough, so that the law ought to be enforced, or not normal enough, so that the law ought not to be enforced. Moreover, individual banks can beg off and exert pressure and "pull." Some kinds of rules have to be automatic, or they will never work at all.

As a prominent feature of the numerous projects for an "emergency currency," so called, now being talked up in many quarters, it is usually proposed to tax the amount of the excess of bank circulating credit progressively. This

s a mistake in principle. Not the amount of "going below the reserve" (or, what is the same thing, expanding bank credit in any form to an extent that is regarded as abnormal), but the length of time a bank "stays below" (remains in a condition of over-expansion) should be taxed or fined progressively. It is not desirable that the banks should be timid about taking relief measures when such are needed, and they alone can be the judges both as to occasion and quantity. If there is need to act at all, they should be free to act with decision and with full amplitude of power, because it frequently happens in all departments of affairs (as, for example, in the case of the first Cleveland bond issues) that "small measures do not produce small effects: they produce no effect at all."

The foregoing suggestions apply obviously, *mutatis mutandis*, to the maintenance of the reserve of State banks and trust companies doing a banking business.

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THE CHIEF CAUSE OF THE FAILURE OF MUNICIPAL TELEPHONY IN GREAT BRITAIN.

Mr. A. N. Holcombe has recently discussed in this Journal¹ the reasons that led to the abandonment of municipal telephone service in Great Britain. Having explained the situation antecedent to the establishment of municipal exchanges, governed largely by the vacillating policy of the British Post-office, which might be fitly described as having played a game of "blind-man's-buff" both with the National Telephone Company and the municipal corporations, the author reaches the following conclusion: "the general abandonment of the municipal telephone undertakings (thus) cannot be adequately explained by any technical or financial weakness for which their managers

¹ In the issue for August, 1907, p. 645